A PROPOSAL FOR A NORTH AMERICAN CONTINENTAL MARKET FOR BARLEY

Alberta
AGRICULTURE

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PROPOSAL

To implement a mechanism whereby farmers and their agents have equal jurisdiction in the marketing of Canadian barley within the North American Continental Market.

Throughout the 1980's, the concept of a continental barley market has grown in popularity as its advantages have come to be appreciated. The concept achieves virtually all of the advantages of a complete dual market, but without most of the administrative and system nuisances of channeling grain through congested tidewater ports. These advantages have become increasingly obvious with the implementation of the Canada–U.S. Trade Agreement and the expectation of a resolution of the grain transportation debate. Canadian barley growers displayed interest in the U.S. barley market and Canadian domestic non–feedgrain market throughout the past decade. A marketing channel to capture these opportunities would satisfy much of the farmers' desire to become personally involved in barley marketing. The following proposal is consistent with the pillars of "Growing Together".

We are seeking to implement this proposal by changing the regulations of the Canadian Wheat Board Act by Order in Council, which would authorize equal opportunity and access for farmers and their agents to market barley within continental North America. For barley exports to the U.S., the CWB would provide automatic export licenses at no cost.

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I. INTRODUCTION

In this document Alberta Agriculture presents a proposal to achieve open access to the North American continental market for Western Canadian barley. The proposal examines relevant domestic and international developments, the objectives for proposed changes to the current Canadian Wheat Board (CWB) system of marketing barley and reasons for change.

The Canadian grain industry is more than a century old, and during that time, wheat has played a dominant role in the economy. Although production has shifted in the past twenty years, barley is still largely a secondary crop across the prairies. Only in Alberta does barley legitimately challenge the supremacy of wheat.

Despite the expansion of barley and other crops, wheat continues to dominate grain exports. Prior to 1951, wheat usually accounted for 95 percent of our total cereal exports. Since that date, wheat exports have represented about 80 percent of total cereal exports. The dominance of wheat, both in production and in exports, has been the determining factor in the development of policy and institutions for the western grains industry. New crops like barley and canola and emerging industries like red meats have been forced to conform to a mold shaped by the needs and characteristics of the wheat industry.

The barley industry in Western Canada can be positioned for strong growth. Its market is expanding because of the growth in demand from the western feeding industry. As well, advances in research and production technology make barley increasingly attractive to farmers across Western Canada. Demand

for barley as a livestock feed will continue to increase as the livestock industry responds to growing meat markets in the United States and the Pacific Rim.

The marketing of barley, however, requires a different approach than is suitable for wheat and warrants policies that are specific to its needs. Because of its predominant use as a domestic feed, it requires a more dynamic and flexible marketing system than might be suitable to the wheat industry. The demand for barley is tied to the growth of the feeding industry, which must itself be competitive in the markets it serves. Contrary to the current system which insulates our industry from those export markets we serve, price signals within the feed complex must be accurate and immediate.

Western farmers must have sufficient freedom to unleash their considerable entrepreneurial talent to learn to better compete in the changing global marketplace. A majority of grain growers in some regions of Western Canada are requesting the option of independently pursuing the U.S. market. Automatic export licenses, at no cost, from the CWB would be less disruptive to the Canadian export system than a complete dual market, and it achieves most of the advantages of the dual market concept without its administrative and political complications.

The United States market is accessible, has business practices very similar to our own, has a common language and can be served in carload lots instead of cargo lots. A continental market would provide a host of advantages, foremost among them being the potential to increase farm income in Western Canada, due to sales to the U.S. market and to generally higher feed grain price levels in our domestic market.

Eliminating restrictions into the United States market for barley would also serve to reduce international hostility toward the Canadian Wheat Board. Without changes, this institution is no longer tenable in a

changing world. We are not suggesting that the Canadian Wheat Board is an undesirable institution from a Canadian perspective but that we cannot ignore the assault it is facing from forces outside our country. The CWB has demonstrated its worth to Western farmers and should not be allowed to wither because of resistance to change in ways that are consistent with farmers' needs and Canada's international obligations. Removal of restrictions in the continental market would strengthen rather than weaken the CWB. International obligations aside, Western farmers will not tolerate continued restrictions of the kind they face today when marketing grain. Change is inevitable.

The 1992 view from the Western grains industry is murkier than usual. The industry has outstanding strengths: a well developed infrastructure, large and fertile soil base, access to capital and a well-trained work force. Western Canada also has a large and growing market-oriented value-added industry in some regions that stands ready to use ever increasing quantities of domestic grain. Western Canada appears poised to greet a world newly energized with a commitment to liberalized trade in agriculture, secure in the knowledge it will provide huge advantages to our competitive sectors. But it is also true that this country has been rigid in its approach to change, an attitude that has prevented it from seizing emerging opportunities. Attitudinal rigidities and institutional inertia compromise some of our strengths in a world adrift in change. We too must change or risk being left behind.

Automatic granting of export licenses for barley to the Continental market would be beneficial to all concerned. It would improve farm income in western Canada, and would benefit those who export to the Continental market as well as those who choose not to. It would provide the competitive environment for our livestock feeding industry to prosper. Increased farm income would reduce the need for public financial transfers to western Agriculture. And the Canadian Wheat Board would be stronger as a consequence of its adaptation.

II. RATIONALE

A number of recent developments suggest a review of the CWB system of marketing barley into the U.S. is both timely and necessary:

1. GRAIN FARM INCOME CRISIS

Real prices for Canadian grain are near their lowest levels of this century. In the short term, farmers need to be offered access to higher barley prices and a bigger market. Additionally, over the long–term, farmers need:

a) to be provided with more efficient pricing to help stabilize the industry and provide accurate price signals for resource allocation (land, labour, capital); and

b) to be provided with an operationally efficient grain handling and transportation system.

Meeting these needs should make farmers less reliant on publicly funded programs.

Farmers are increasingly questioning the relevance of the present legislative and regulatory environment. As costs per unit of production continue to rise and prices remain flat with the potential to decline further, farmers are searching for new markets and means to reduce the number of middlemen involved in servicing the market.

2. MARKETING COSTS

While U.S. grain handling and transportation costs have declined since their deregulation in 1981, charges for moving Western Canadian grain into export position have increased. This increase is shown by the rising price spread between CWB payments at Vancouver versus Red

Deer. These increased marketing costs, as well as other factors (i.e., EEP), have widened the price spread between Western Canadian feed barley and U.S. feed barley prices at inland points (see chart 1). Unless significant cost savings are achieved in the Canadian system, the price spread will continue to rise and this increasing price spread will continue to make sales of barley into the U.S. an attractive option.

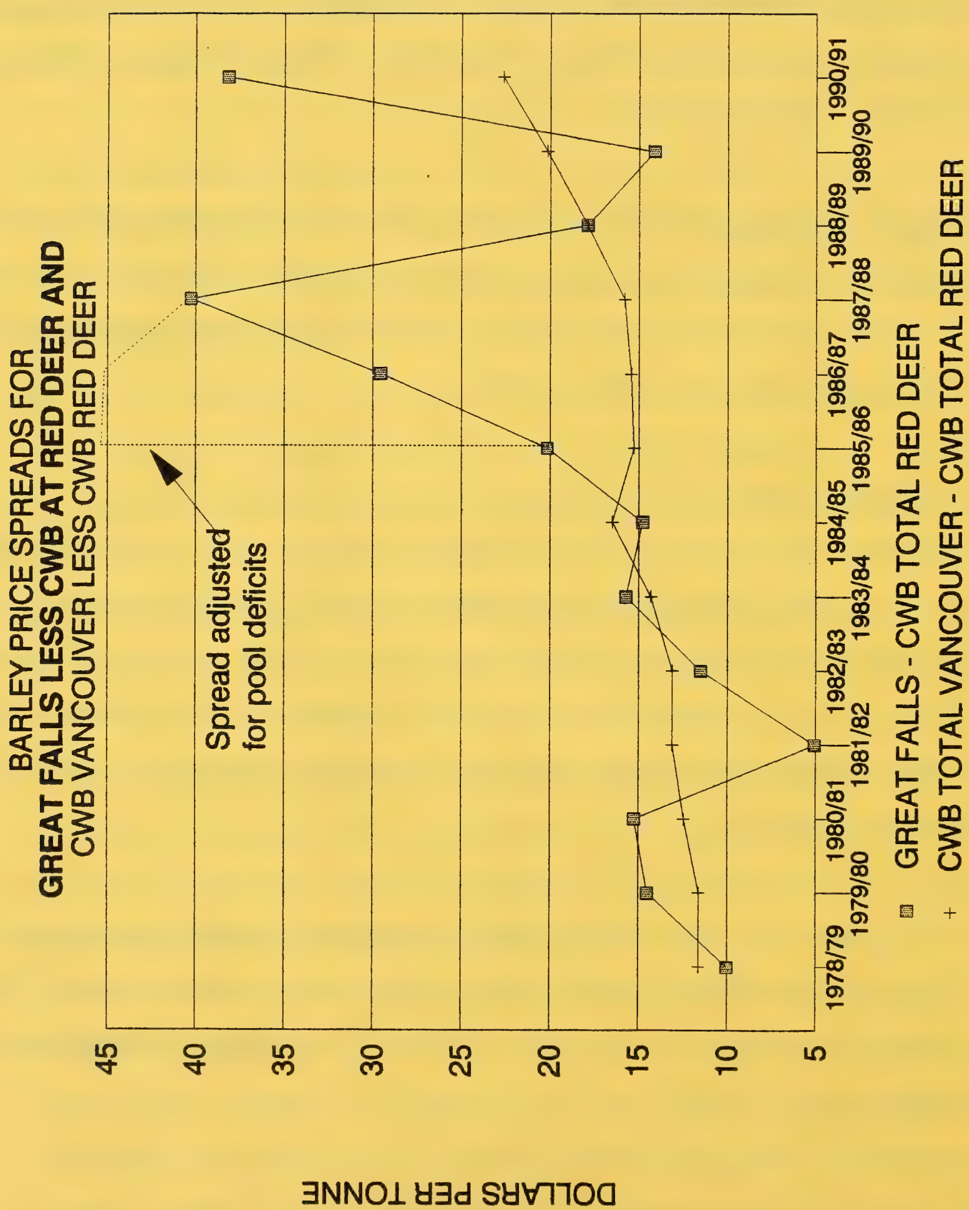
The U.S. market also becomes more appealing in view of the fact that trucks have become more competitive with rail, partly as a result of technological developments and more generous limits on weights and dimensions. Super–B 42 tonne trailers are now permitted to enter into Montana, reducing the cost of accessing the U.S. market.

3. BARRIERS TO TRADE

International trade negotiations and adjustments of domestic policy objectives are reducing barriers to trade. Individuals, including farmers, want less government involvement in their businesses. Regulations which interfere with the daily operations of farms and mask market trends are seen as detrimental to the long term competitiveness of our agriculture and food industry. A global move toward less government intervention is making farmers around the world more self–reliant.

The Canada–U.S. Trade Agreement (FTA) is recognized as having benefitted agricultural producers and processors by providing them with greater security of access to the vital American market. This more secure access can only be utilized to our advantage if pricing efficiency can be maximized.

CHART 1


BARLEY PRICE SPREADS FOR
GREAT FALLS LESS CWB AT RED DEER AND
CWB VANCOUVER LESS CWB RED DEER
Spread adjusted for pool deficits
DOLLARS PER TONNE
45
40
35
30
25
20
15
10
5
1978/79
1979/80
1980/81
1981/82
1982/83
1983/84
1984/85
1985/86
1986/87
1987/88
1988/89
1989/90
1990/91
GREAT FALLS - CWB TOTAL RED DEER
CWB TOTAL VANCOUVER - CWB TOTAL RED DEER

4. PRICE EFFICIENCY

Since our economies are intertwined, there is an increased need to allow open arbitrage to ensure pricing efficiency and thereby enhance our competitiveness in the international food market. The regulatory nature of our grain industry causes our feedgrain market to be less spatially efficient than in the U.S. Within its borders, the U.S. feedgrain market is usually efficient with prices between location differing only by transport costs.[1]

5. TRADE NEGOTIATIONS/AGREEMENTS

Should a GATT agreement materialize, import licenses for barley would likely be replaced by tariffs of about 40 percent for feed barley and of about 140 percent for malt barley. These tariffs will have to be reduced by a minimum of 15 percent in equal annual reductions between 1993 and 1998. As well, a GATT agreement would require minimum access beginning in 1993 of about 240,000 tonnes for feed barley and 11,000 tonnes for malt barley at pre–tariffication tariff rates. This access would have to be expanded to about 400,000 tonnes and about 18,000, for feed and malting barley respectively, by January 1, 1998. It would be unacceptable to have American barley producers being able to exploit arbitrage opportunities in the Canadian market without like access for Canadians to the U.S. market. Opportunities for movement of barley to U.S. buyers cannot be ignored if we are to allow Canadian barley producers to make adequate returns. The opportunities must be unfettered by inappropriate regulatory restrictions.

A further development in our international trade obligations, which will occur as early as this spring, is the need for Canadian provinces to remove barriers to foreign beers under the terms of

[1]Ulrich, A., Schmitz, A. and W. H. Furtan. "Canadian and American Grain Programs and Their Impact on Feed Grain Costs: Case Studies." Agricultural Economics Department, University of Saskatchewan, December, 1991.

a GATT panel. Interprovincial restrictions on the movement of beer will need to be reviewed if Canada wishes to maintain a brewing and malting industry. While the premium the CWB has been charging Canadian maltsters is not large in terms of current consumer cost, amounting to only one or two cents per bottle, the tariffication tariff of about 140 percent reflects its real cost to the industry. The domestic malt premium is one more regulatory nail in the coffin of the Canadian brewing industry. Over the long term to ensure its survival, if the brewing industry can source U.S. malting barley at competitive prices it will do so. Canadian malt barley growers must be allowed the same arbitrage opportunities. It would be ridiculous to allow Canadian farmers to sell into the U.S. market and prevent them from selling to a neighboring Canadian malt plant.

6. INTERNATIONAL MARKET FOR BARLEY

Developing countries throughout the world are striving to become self-sufficient in the production of feedgrains, evident in the fact that production of the world's main feedgrain, corn, increased by 70 million tonnes during the past decade. Our exports of barley into traditional markets have been erratic during this period, partly because we are residual feedgrain suppliers. Moreover, the international feedgrain market is beset by low prices caused, in part, by export subsidies. It is therefore essential that barley growers have unrestricted access to markets wherever they exist, especially the U.S. market, in order to gain full advantage of opportunities that do exist.

7. AGRICULTURAL TRADE WITHIN NORTH AMERICA

With the removal of barriers to trade within North America, the movement of goods and services based on comparative advantage tends to shift from the traditional west-east to a north-south flow. This is true of the livestock sector which has moved toward a north-south trade to the benefit of both countries. North-south trade in corn has remained relatively strong at 575,000 tonnes. West to east trade of barley continues to decline with only an estimated 300,000 tonnes

moved in 1990 in comparison to 670,000 tonnes in 1980. However, institutional barriers all but eliminate any incentive for trade in barley to occur between Western Canada and the North–Western U.S.

8. COMPETITIVENESS

Competitiveness simply implies the ability to produce a product and deliver it to the market of choice at a price, quality or service advantage over the next available supplier. Competitiveness cannot be averaged. To average prices minimizes, and potentially eliminates, the competitiveness of those who could profitably supply a market on a consistent basis because of their comparative advantage.

Now more than ever, farmers and others in the industry recognizes the need to be competitive with other countries in the production and marketing of our agricultural and food products. A policy which distorts price signals or restricts trade impedes the development of our competitive ability at home and abroad, both within the grain sector and in those agriculture and food sectors that use western grain.

III. OBJECTIVES

The four pillars to guide reform in Canada's agriculture and food policy are,

1. to enhance market responsiveness;
2. to foster greater self–reliance;
3. to recognize regional diversity; and
4. to promote environmental sustainability.

Based on these pillars, a number of objectives were developed. Any proposal to change Canada's barley marketing policy must,

1. increase net farm income from the market;
2. increase the long-term competitiveness of Western Canada's agriculture and food industry;
3. facilitate resource allocation on the basis of comparative advantage;
4. improve the legislative and regulatory environment to promote entry and growth; and,
5. improve the viability of the rural community.

This proposal satisfies the objectives, as listed.

IV. IMPLICATIONS

A. ECONOMIC

1. BARLEY PRICES

   An open market with many knowledgeable buyers and sellers is a dynamic and efficient route to equitable returns for all. When provided with alternative markets, Western Canadian farmers do exercise price discipline. Most of Western Canada's agricultural products, including barley for domestic feed use, are priced on the open market, and farmers today are increasingly sophisticated in utilizing market information to ration supply and maximize returns. CWB payments are just one part of the market information available.

   The U.S. feed grain market is fragmented and individualized. The northwest region alone requires 15-20 million tonnes annually, which is two to three times the size of the Canadian domestic feed barley market. U.S. feed grain prices are based on open market corn prices since corn, with an annual rate of production of 200 million tonnes, is the overwhelming predominant

feed grain in that market. The Great Falls barley price is a reference price for Western Canadian barley moving into the Northwestern U.S., and this price is mainly driven by the California barley price adjusted for freight. The California barley price in turn tracks the Chicago corn price with adjustments to reflect feeding value and distance from source. This is shown in Chart 2 with Stockton as the California pricing point.

Because Canada produces relatively modest volumes of feed grains, it is a price taker in the world and U.S. feedgrain/grain market. The influence of Western Canada's barley supply on the world feedgrain price or of Western Canadian exports into the Northwestern U.S., would be minimal given the size of the U.S. feed grain market.

Since the 1985/1986 crop marketing year, the CWB total payment for barley at Red Deer, Alberta, has averaged $26.70 per tonne below the Great Falls price. Prior to 1985/1986, the price spread was roughly $12.41 per tonne. This increased spread is due in part to the U.S. domestic price support resulting from the use of EEP, but is also due to declining U.S. marketing costs and to increasing costs in exporting Western Canadian grain.

Farmers are responsible for a growing share of actual rates for moving grain by rail to port; the farmer average share of rail charges has increased from $4.85 per tonne in 1983 to $11.07 per tonne in 1991. Without significant efficiency gains, the cost to farmers will continue to rise. Access to U.S. markets will act to increase the competition for Western Canadian barley, and will encourage the Canadian grain forwarding system to become more efficient.

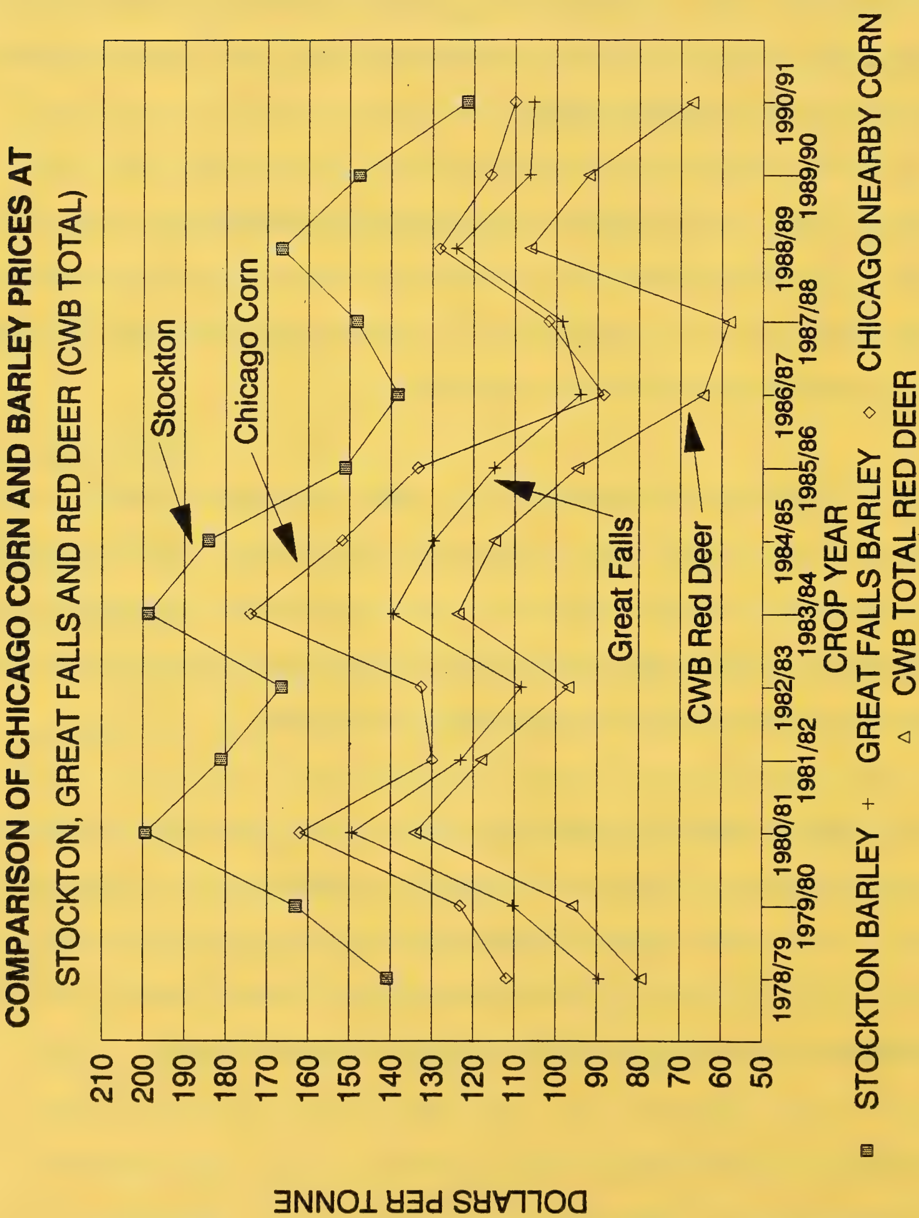

COMPARISON OF CHICAGO CORN AND BARLEY PRICES AT
STOCKTON, GREAT FALLS AND RED DEER (CWB TOTAL)
Stockton
Chicago Corn
Great Falls
CWB Red Deer
DOLLARS PER TONNE
210
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
1978/79
1979/80
1980/81
1981/82
1982/83
1983/84
1984/85
1985/86
1986/87
1987/88
1988/89
1989/90
1990/91
CROP YEAR
STOCKTON BARLEY
GREAT FALLS BARLEY
CHICAGO NEARBY CORN
CWB TOTAL RED DEER

CHART 2

2. TRADE IN BARLEY

The Northwestern U.S. is the major American feed market which could conceivably be served by Canadian barley. That market is as accessible to Western Canadian feed supplies as it is to U.S. midwest corn supplies. Research indicates that Alberta farmers could sell 1–1.4 million tonnes of barley into the Northwest U.S. annually.[2] This market volume is, of course, dependent upon a favourable price spread between Western Canada and the U.S., and this may not always occur. But a favourable price difference existed throughout most of the 1980s, and Canada failed to take advantage of that opportunity.

3. BARLEY PRODUCTION AND CONSUMPTION IN WESTERN CANADA

Enhancing the pricing efficiency between Western Canada and the U.S. feed market would increase the stability in livestock sector returns. An open border would allow feed growers and users on both sides of the border to utilize Canadian futures markets as a hedging mechanism.

Grain farmers at present obtain a premium on that portion of their production that they sell into the Western Canadian market versus selling the barley through the CWB for export. If they are able to realize a similar premium on more of their barley production by selling it into the U.S., they would be enticed into growing more barley. This would remove some of the pressure on the wheat market. Furthermore, the CWB barley pool account could benefit through a higher percentage of feed barley being sold into premium markets as overall offshore feed barley exports decline.

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[2]Magnusson, G.M. and Lerohl, M.L. "Alternative Alberta Barley Trade Scenarios with the Northwest United States." Project Report, Department of Rural Economy, University of Alberta, 1991.

B. U.S. TRADE ACTION

The United States has the wherewithal to oppose the importation of Canadian grain. The United States could impose countervails or some other trade action, such as a Section 301 case against Canadian barley. Nonetheless, under the terms of the FTA Canada is allowed to continue to export barley to the U.S. and maintain restrictions on barley imports until U.S. subsidy levels for barley decline to or below the level of Canadian subsidies.

If the United States were to initiate a trade case, against the Canadian barley industry, it would likely be in the form of a countervail. However, not only must the U.S. industry prove that Canadian barley is subsidized, but that such subsidies injure U.S. barley producers. Although subsidization may be demonstrated, injury could be difficult to prove. Since U.S. barley prices are derived from corn prices and since the total U.S. feed market is 150 million tonnes, an increase of several hundred thousand tonnes of Canadian barley is unlikely to have significant impact on U.S. feed prices. Furthermore, Western Canadian domestic barley prices would adjust to be more competitive with those in the U.S.

American rhetoric is usually directed at the Canadian Wheat Board and the Western Grain Transportation Act rather than at Canadian grain exports. The confidential sales practices of the Canadian Wheat Board are a major irritant to the United States. It would be reasonable to expect reduced American resistance to Canadian barley imports if Canada were to use marketing methods more consistent with those in the U.S. Moreover, since the balance of trade in grain favours the U.S., it would perhaps be difficult and counterproductive for it to undertake countervail action.

C. OFFSHORE MARKETS

Since farmers in Western Canada have demonstrated their willingness to sell directly into the U.S. and buyers have demonstrated their willingness to purchase western Canadian feed grains, it is possible that

increased north–south movement would cause offshore barley exports to decline. This would occur if farmers perceived their returns from barley sales into the U.S. to be higher than the returns available from the Canadian domestic market or the Canadian Wheat Board offshore market. Offshore markets would continue to suffer until Canadian market prices were equivalent to U.S. returns, adjusted for freight, or until sufficient information was provided by the Canadian Wheat Board to convince farmers that offshore returns exceeded those available in the U.S.

The above situation is similar to that of today except that one additional marketing option is available to farmers. Feed grain growers now either sell to the domestic feed market, sell through the Canadian Wheat Board, or store their production for some period until prices appear to be more acceptable. The CWB could harness adequate barley supplies to serve its offshore markets by continuing to contract directly with Canadian farmers. The CWB now accesses up to 75 percent of its barley supplies through contracts. With this contracting procedure already accepted and operating within Western Canada, farmers could be given the freedom to market barley into the U.S. without adversely affecting the CWB.

Some industry groups have expressed concern that barley sold into U.S. marketing channels could move through the U.S. system to compete in offshore markets with barley offered by the Canadian Wheat Board. Farmers sell to the market they prefer, and this preference is most often based on price expectations. Farmers must be allowed to search for the highest possible price, and if that price exists in the U.S. market, we should not limit that price by attaching conditions to our sale. The Canadian grading system is widely viewed as providing a marketing advantage because of reliable quality standards. Canadian barley which might reach offshore markets through the U.S. system would therefore have to be discounted compared to the price of similar barley moving through the Canadian system. If that barley remained competitive, even with these discounts, and if it was sold at a premium

by Canadian farmers, then Canadian feed grain growers will have benefited because the best possible price will have been obtained.

From a national perspective, Canada has not prevented feed grains, including barley, from being freely marketed into export markets from other producing regions of Canada, and it must therefore not do so from Western Canada.

D. LOCATIONAL ADVANTAGE

The opportunity for farmers to sell grain directly to U.S. markets may benefit farmers in some regions of the designated area more than in others. Farmers in close proximity to U.S. markets may have a locational advantage in serving these markets. It is also true, however, that even now there is usually a price premium in southern prairie locations sufficient to offset transportation costs from northern prairie locations. It seems probable that this situation would continue and the benefits would be shared by farmers in all locations. Even if an advantage does exist, the principle of locational advantage is firmly established in the western grain industry. The original Crow's Nest Freight Rate was a distance related rate, and rates under the Western Grain Transportation Act continue to be distance related.

If barley from the southern prairies does move into U.S. markets, there will be three obvious effects on barley growers from the northern prairies. The prairie feed market will experience less supply competition from southern barley, higher U.S. prices will tend to be transmitted to the Canadian domestic market, and more Canadian rail transportation capacity will be available for remaining Canadian grain.

E. LINKAGES TO OTHER CANADIAN PROGRAMS

Sales into the U.S., with the exception of those through Thunder Bay, do not receive the Crow Benefit. As a result, any increase in sales into the U.S. will increase the funds available to those who sell through Canadian ports for export.

Through the provision of more stability and pricing efficiency in the Western Canadian feedgrain market grain growers and users would be able to more effectively hedge on the futures markets. The Western Barley Futures Contract would likely be a more effective hedging contract for both Western Canadian and Northwestern U.S. livestock producers.

The GRIP and NISA programs provide farmers with price and net income guarantees. With these programs in place, farmers should be more confident stepping into a new open market environment.

APPENDIX A

HISTORICAL PERSPECTIVE

The history of grain production in Western Canada is more than 120 years old, and it is a rich history indeed. In 1870 Western Canada was essentially a place empty of agriculture except for the settlement at the confluence of the Red and Assiniboine rivers and the beginnings of farming settlements further west. From its beginning in the Red River Settlement, the growing of grain spread with the railroad newly completed in 1870. With the railroad European settlement was rapid. Land lay ready -- surveyed, cheap and fertile -- for those who travelled from Europe and the United States in the search for new lands. Horses and humans worked long hours to break the first few acres, usually seeding a first crop of oats in order to provide food for horses. Wheat followed very quickly, however, for if oats were necessary to provide fuel for horsepower, wheat was necessary to pay bills and feed people.

In the early years to 1910 the grain industry was essentially a two crop story. Although flax, barley and rye all had their place, it was wheat and oats that farmers looked to for survival and prosperity. One for horses and the other for financial security, oats and wheat formed the checkerboard of prairie farms in those beginning years.

Prior to 1910 Manitoba dominated western grain production in all grains. At this time the new provinces of Saskatchewan and Alberta began to show the muscle of vast area, and Saskatchewan in particular surged ahead in the production of grain, never to be overtaken for any extended period by the provinces on either side. For Saskatchewan was large by any standard, and this sheer size ensured a potential for cereal production that would not be matched in Alberta or Manitoba. Saskatchewan's cereal production rose from 100 million bushels prior to 1910 to 200 million bushels in 1911 to nearly 400

million bushels in 1915 (Chart 3). Alberta, too, rapidly expanded production, with 100 million bushels, harvested in 1912 and 200 million in 1920. The pattern of grain production, at least in relative capacity to one another, has not changed between the provinces since that time.

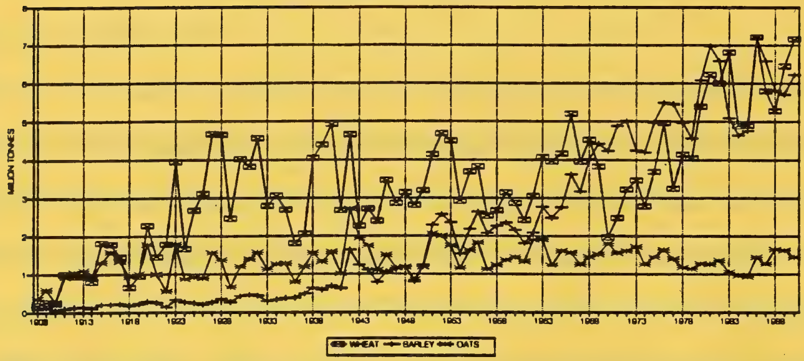
Production patterns for different cereal grains have changed dramatically since the turn of the twentieth century when all three provinces were balanced growers of wheat and oats. At this early time wheat was grown on six million prairie acres, oats on 3 million acres, and barley trailed at less than one million acres (Chart 4). Wheat production rapidly increased in area until it reached 25 million acres 1931, and reliance on oats peaked at 11 million acres in 1921. Barley was slow to show its potential, and even at the beginning of the second World War it was grown on less than 8 million acres. Oats began a gradual and extended decline in acreage to the level it holds today of about three million acres. Although experiencing periodic declines in acreage, wheat generally increased in importance to the point where today prairie–wide acreage is nearly 35 million acres. Barley grew slowly as a prairie crop, first gaining real legitimacy as a livestock feed during W.W.II. Its dramatic popularity in the mid 1950s declined throughout the next five years, only to come into its own during the difficult wheat marketing years in the last half of the 1960s. The LIFT program in 1970 launched barley to a new zenith, and acreage has remained in the range of 10 – 12 million acres since that time.

Briefly, wheat has dominated production throughout this century, oats have peaked and declined, and barley has shown a dramatic increase from virtually nothing prior to 1910 to the strong second place it holds today. The western grains industry is more dependent on a single crop (wheat) today than it was in 1910, and barley has replaced oats as the challenger.

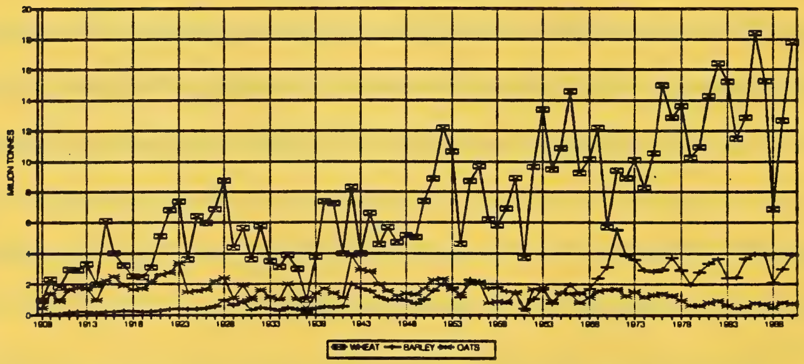
Regional production shifts are also evident. Although wheat production has increased in all provinces, it is a crop of particular importance to Saskatchewan –– that province accounts for about 60 percent of western wheat production (Chart 5).

CHART 3

ALBERTA GRAIN PRODUCTION



SASKATCHEWAN GRAIN PRODUCTION



MANITOBA GRAIN PRODUCTION

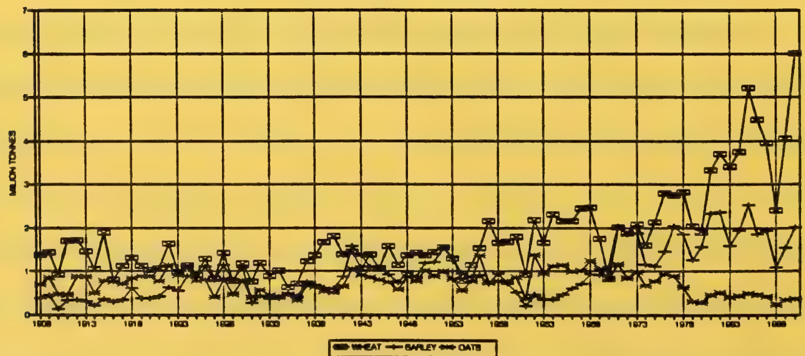
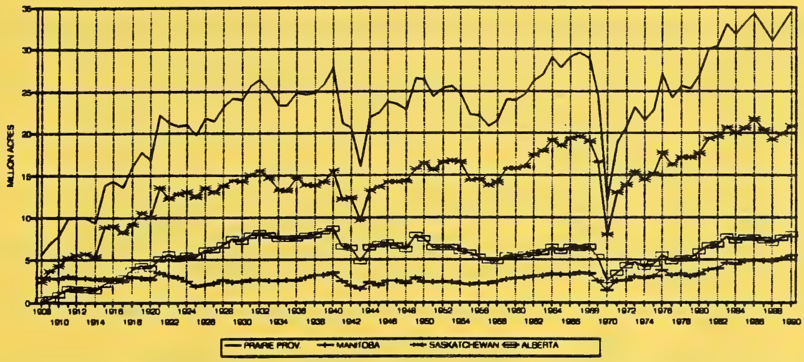
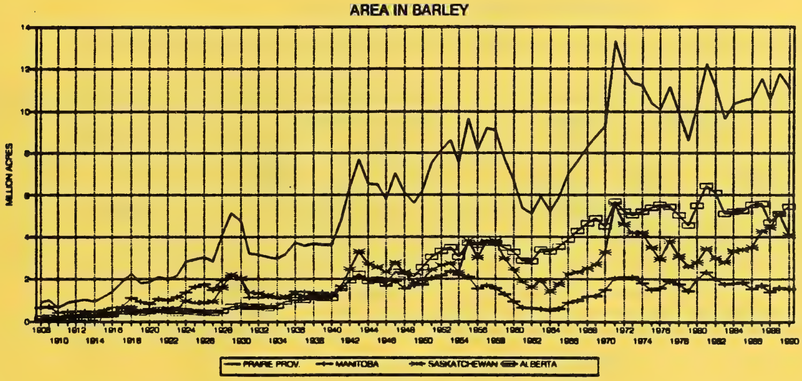


CHART 4

AREA IN WHEAT



AREA IN BARLEY



AREA IN OATS

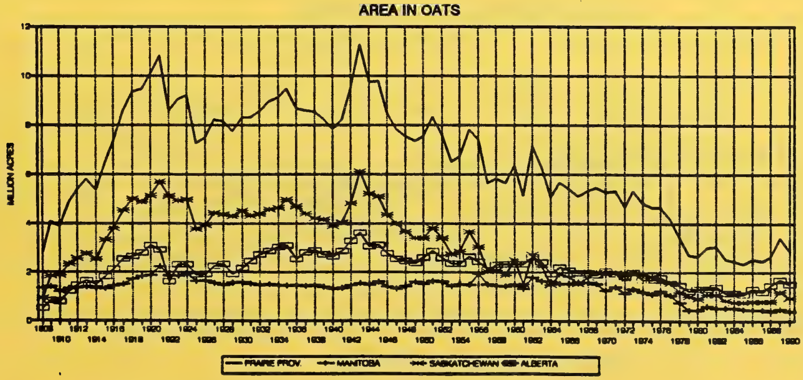
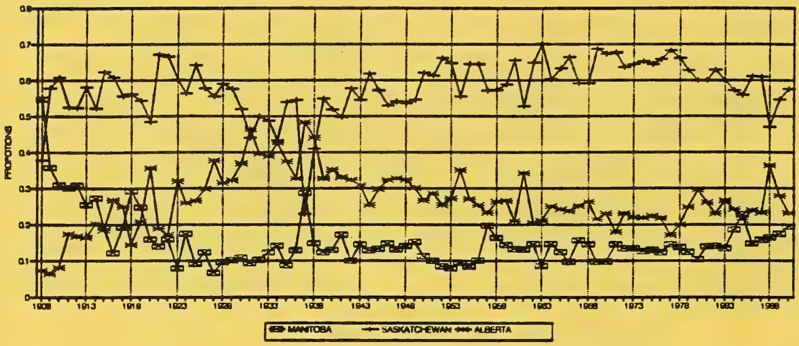
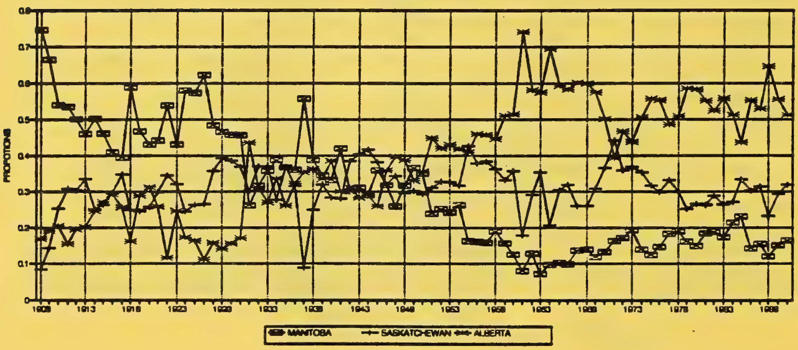


CHART 5

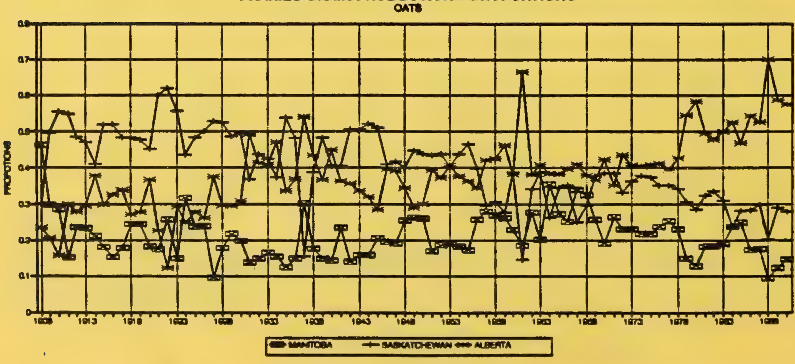
PRARIES GRAIN PRODUCTION - PROPORTIONS
WHEAT



PRARIES GRAIN PRODUCTION - PROPORTIONS
BARLEY



PRARIES GRAIN PRODUCTION - PROPORTIONS
OATS



And although oat production remains today at a level only modestly below that of 1910, Alberta has become the dominant producer of that crop with about 55 percent of prairie production since 1970. Barley, too, is a crop that has found particular favor in Alberta with between 50 – 60 percent of prairie barley production. For the entire decade of the 1970s, for example, barley was Alberta's major cereal crop. Manitoba is neither as dependent on wheat as is Saskatchewan, nor as dependent on barley as is Alberta.

The export picture for western cereals is less complex than the production picture. The western grains export industry began as a wheat story, and that has never changed. The degree of dominance of wheat as an export commodity has changed over time, but never the dominance itself as shown in Table 1.

TABLE 1: DIVISION OF WESTERN CANADIAN CEREAL EXPORTS

DECADE	PERCENTAGE OF ALL WESTERN CEREAL EXPORTS		
	WHEAT	BARLEY	OATS
1920 – 1930	91	6	2
1930 – 1940	95	5	0
1940 – 1950	95	4	1
1950 – 1960	82	14	3
1960 – 1970	93	6	<1
1970 – 1980	79	20	1
1980 – 1990	80	19	1

Prior to 1951 the year was rare indeed when wheat did not account for more than 90 percent of Western Canadian cereal exports, and annual shares of 95 percent plus were the rule rather than the exception. On the other hand, oats have never been a significant export commodity, except of course to those who grow oats. Barley, although not a major historical export grain, has, for the past twenty years shown strong growth as an export commodity.

The western grain economy has always been export-oriented. Eighty percent of our annual wheat production is exported, as is nearly half of our barley production. This masks the fact, however, that there are substantial regional differences in our reliance on the export market. In Alberta where oats and barley production are concentrated the livestock feeding industry consumes about 60 percent of the annual feed grain production. Since 1977 Alberta has been home to more than half of the cattle in the prairies, and that dominance continues to increase. In addition, 45 percent of prairie hog production is located within Alberta.

The feed grain and feed complex in Alberta represent nearly 60 percent of total farm cash receipts. For Saskatchewan and Manitoba that reliance is 24 percent and 44 percent respectively. So, although grain exports are an essential ingredient of farm income in Western Canada, there are dramatic differences in the degree to which provinces rely on the combination of grain exports and the domestic market. But overall, the export market represents the largest segment of our cereal grains business, and it is overwhelmingly wheat that we choose to deliver to that market.

This dominant role that wheat has played in the western grain industry, both in production and exports, has fundamentally shaped the system we use in handling, transporting and marketing grain. It was wheat that provided the impetus to form the prairie pools in 1923/24, wheat that delivered the coup de grace to the Central Selling Agency in 1931, and it was wheat stocks accumulated by that Agency that drove the Government of Canada to its rescue. It was wheat for Britain in 1939 that was responsible for

a continuation of the temporary and voluntary Canadian Wheat Board in that year, and it was the prospect of western farmers delivering their wheat to the high value United States market in 1943 that caused the Government of Canada to change the Canadian Wheat Board to a compulsory agency at that time. It was the Anglo-Canadian Wheat Agreement in 1946 that caused the Canadian Wheat Board to remain in its compulsory form subsequent to W.W.II, and it was the International Wheat Agreement in 1949 that effectively enshrined the compulsory Canadian Wheat Board for the duration of that agreement and its subsequent continuations.

It was wheat, and specifically food-quality wheat from the earliest days of our industry, that was the impetus for the rigid system of standards implemented by the Canadian Grain Commission and the Canadian practice of tidewater cleaning. It was the early reliance on exporting wheat that caused rail transportation subsidies to be applied to export wheat, rather than to all agricultural commodities regardless of their destination. And it has been wheat, time after time, that has influenced us in our creation of institutions and development of policy for western agriculture. The Board of Grain Supervisors in 1917, the first Canadian Wheat Board in 1920, PFAA in 1939, LIFT in 1971, rail car and terminal access restrictions, response to transportation constraints, and even GRIP in 1991 -- all are arguably pivotal solutions to symptoms that are based on the challenges arising from a dependence on export wheat. Since it has been wheat that has dominated our exports it has been wheat for which the research, production, grading, handling and transportation systems have been structured.

As other crops like barley and canola have emerged as important contributors to prairie agriculture they have been expected to fit the systems built around wheat. Nor is this restricted only to crops. Those industries that have emerged in Canada which utilize western grains have likewise been expected to mold their needs to those of export wheat. Most of our important conflicts in the western grains industry centre around the reality of trying to fit emerging crops and industries into the rigid system developed for export wheat, when in fact these crops have legitimate different needs from those of wheat.

The western grains industry has been served very well at times by the export wheat market and may have come to believe that a continuation of buoyant times based on the successes of the past is assured. Governments in recent years have legitimized this expectation by responding with financial assistance when export markets are weak.

In 1990 the Canadian agriculture industry seemed prepared to follow a different course -- one focussed on the future rather than on past accomplishments. "Growing Together" was essentially a forward looking process rather than a polish of the past. It set out the principles of market responsiveness, self-reliancy, environmental sustainability and recognition of regional diversity and it is to principles such as these that we must look in designing the shape of our future.

But the history of the western grains industry makes adherence to these principles difficult. For very nearly 50 years western wheat growers have relied on a compulsory Canadian Wheat Board to sell their wheat, and for 45 years barley and oat growers have accepted the same. For much of that time feed grain growers were not even able to market their own feed grains to markets within Canada. So we have two generations of grain growers who have in large part abdicated their marketing responsibility to the Canadian Wheat Board, and many are now apprehensive about their own ability to manage more of their own affairs.

Referring to the market inefficiencies resulting from regulated pricing for western feed grains in eastern Canada, Wilson stated: "*The need for a pricing system which would avoid such a situation was amply demonstrated and pointed to the desirability of allowing price to be determined as a result of interaction of knowledgeable buyers and sellers in a public setting where all the factors affecting the market can be experienced.*"[3]

[3] A.G. Wilson, An Assessment of Present Feed Grains Marketing Policy in Canada, 1975

Although in 1975 it may have been questionable if knowledgeable buyers and sellers were able to interact in a public setting where all the factors affecting the market can be experienced, there is no question that this is changing today. Though the degree to which it is changing is unequal across Western Canada, it is changing in response to the need to manage the growing proportion of crop production that is priced on an open market basis (e.g., canola, oats, peas, feed grains). Immense effort has been dedicated by government extension and industry personnel in assisting the development of effective marketing skills. Although it may have been difficult when Wilson observed the scene in 1975 to operate an efficient open market system, that is demonstrably untrue today with our expanded marketing skills, information sources and advanced communications capability. Furthermore, it has never been more important to do so because of the growing market for feed grains within Canada and because of the "Growing Together" principles that describe the need for market responsiveness.

Farmers attitudes reflect that need. In 1985, 60 percent of Alberta farmers polled indicated a preference for a marketing system with both the Canadian Wheat Board and private grain companies and co-operatives allowed to buy and sell feed grain for the export market.[4] The desire and need for change has strengthened in today's environment.

[4]Angus Reid Associates Inc., "Feed Grain Marketing in Alberta, Producers' Perceptions, 1985." "Table 31, Preferences Towards Options for the Buying and Selling of Export Feed Grain."

APPENDIX B

OTHER OPTIONS

There are four options that could be considered in the enhancement of farmers' marketing options for western barley:

1. Remove Jurisdiction for Barley from the Canadian Wheat Board

   Under this option, the CWB would no longer buy or sell barley. There are two fundamental objections to this alternative. Firstly, the Canadian Wheat Board has had 45 years to develop marketing strengths in the barley export market, and there is little logic in abandoning this experience. Secondly, a majority of farmers, even in Alberta, do not favour a complete withdrawal of the Canadian Wheat Board from its responsibility to market barley in export markets. For those grain growers who choose to market their barley through the Canadian Wheat Board that option should remain available.

2. Create a Dual Market Structure for Export Barley

   This option provides for joint marketing jurisdiction between the CWB and the private/cooperative grain trade and grain growers in all domestic, continental and offshore markets. This is the option that has been given the greatest amount of thought and development over the past twenty years. Those barley growers who are comfortable with the practice of marketing their barley through the Canadian Wheat Board would keep that option, but those who choose to market their grain through private or co-operative grain companies would be free to do so.

   This alternative remains the preference of a great many barley growers, and of the Western Barley Growers Association. It does, however, carry with it a host of complications associated

with rail car allocation and elevator access, both primary and terminal. It is eminently achievable, but in practice those who have yet to appreciate the benefits of the dual market concept could prevent its adoption through all manner of administrative delays.

This alternative is consistent with the pillars of "Growing Together".

3. Differential Jurisdiction Between Provinces

Any of options 1, 2, or 4 could be implemented for some provinces while maintaining exclusive CWB jurusdiction in other provinces. This alternative remains a viable option if it is not possible to achieve a Continental market. It does raise considerable difficulties with respect to the free movement of grains across provincial borders and equal opportunity for farmers in the designated area. It is, however, consistent with the pillars of "Growing Together", and particularly that of recognition of regional differences.

4. Continental Barley Market

See main text.

The proposal submitted provides advantages to farmers and others in the industry. It builds on CWB expertise and farmers' rapidly developing marketing skills. It is administratively attractive and consistent with the pillars of reform guiding the agri–food policy review.